

U.S. DEPARTMENT OF THE TREASURY

BUDGET IN BRIEF

INTERNAL REVENUE SERVICE

FY 2014



Internal Revenue Service

Program Summary by Appropriations Account and Budget Activity

Dollars in Thousands

Budget Activity	FY 2012	FY 2013	FY 2014	FY 2012 TO FY 2014	
	Enacted ¹	Annualized	Request	\$ Change	% Change
	CR Rate				
Taxpayer Services	\$2,239,703	\$2,253,510	\$2,412,576	\$172,873	7.72%
Pre-filing Taxpayer Assistance & Education	625,189	632,514	660,197	35,008	5.60%
Filing & Account Services	1,614,514	1,620,996	1,752,379	137,865	8.54%
Enforcement	\$5,299,367	\$5,331,000	\$5,666,787	\$367,420	6.93%
Investigation	636,386	611,233	661,631	25,245	3.97%
Exam & Collections	4,504,885	4,565,257	4,842,007	337,122	7.48%
Regulatory	158,096	154,510	163,149	5,053	3.20%
Operations Support	\$3,947,416	\$3,971,000	\$4,480,843	\$533,427	13.51%
Infrastructure	929,634	916,269	939,182	9,548	1.03%
Shared Services & Support	1,214,514	1,239,929	1,305,701	91,187	7.51%
Information Services	1,803,268	1,814,802	2,235,960	432,692	23.99%
Business Systems Modernization	\$330,210	\$332,231	\$300,827	(\$29,383)	-8.90%
Subtotal, Internal Revenue Service	\$11,816,696	\$11,887,741	\$12,861,033	\$1,044,337	8.84%
Offsetting Collections - Reimbursables	122,451	109,193	110,627	(11,824)	-9.66%
User Fees	326,251	511,425	277,582	(48,669)	-14.92%
Recovery From Prior Years	3,235	439		(3,235)	-100.00%
Unobligated Balances from Prior Years	243,266	283,892	113,765	(129,501)	-53.23%
Transfers In/Out ²	193		(5,000)	(4,807)	
Total Program Operating Level	\$12,512,092	\$12,792,690	\$13,358,007	\$845,915	6.76%
Direct FTE	91,646	89,857	96,218	4,572	4.99%
Other Direct FTE ³	668	21	21	(647)	-96.86%
Reimbursable FTE	723	712	712	(11)	-1.52%
User Fees FTE	760	965	360	(400)	-52.63%
Total FTE	93,797	91,555	97,311	3,514	3.75%

¹FY 2012 Enacted represents the approved FY 2012 Operating Plan.

² Resources from Transfers In/Out include a FY 2012 transfer in from the Office of National Drug Control Policy (ONDCP) High Intensity Drug Trafficking Area (HIDTA) Program (\$193K) and a FY 2014 transfer out to the Alcohol and Tobacco Tax and Trade Bureau (TTB) (\$5M).

³Resources from Other Accounts include Other Direct FTE funded from the Department of Health and Human services (664 FTE for FY 2012), the Federal Highway Administration (4 FTE in FY 2012 and 5 FTE projected for FY 2013 and FY 2014), and Therapeutic Discovery Program Grants and Administration (16 FTE projected in FY 2013 and FY 2014).

Summary

The Internal Revenue Service (IRS) collects the revenue that funds the government and administers the nation's tax laws. During FY 2012, the IRS processed more than 239 million tax returns and collected

\$2.524 trillion in taxes (gross receipts before tax refunds), 92 percent of Federal Government receipts. Through both taxpayer service and enforcement programs that protect the flow of revenue to the government, the IRS

remains committed to making the tax law easier to access and understand and to improving voluntary compliance and reducing the tax gap, the difference between taxes owed and taxes paid on time. The taxpayer service agenda supports and protects the trillions in revenue that come into the Treasury each year voluntarily from taxpayers by helping taxpayers understand their obligations under the tax law. The enforcement agenda vigorously pursues those who evade their responsibility to pay the taxes they owe. Resources requested for service and enforcement are key to supporting the Treasury Agency Priority Goal, Increase Voluntary Tax Compliance.

Total resources to support IRS activities for FY 2014 are \$13,249,242,000, including \$12,861,033,000 from direct appropriations, an estimated \$110,627,000 from reimbursable programs, and an estimated \$277,582,000 from user fees. The direct appropriation is \$1,044,337,000 more than the FY 2012 enacted level of \$11,816,696,000.

The *IRS Strategic Plan* guides program and budget decisions and supports the Department of the Treasury Strategic Plan and Agency Priority Goals.

The IRS Strategic Plan goals and objectives are:

Improve Service to Make Voluntary Compliance Easier

Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

The strategic objectives to meet the goal to improve service and make voluntary compliance easier are:

- Incorporate taxpayer perspectives to improve all service interactions;

- Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS;
- Provide taxpayers with targeted, timely guidance and outreach; and
- Strengthen partnerships with tax practitioners, tax preparers, and other third parties to ensure effective tax administration.

The strategic objectives to meet the goal to ensure everyone meets their obligations to pay taxes are:

- Enforce the law proactively in a timely manner while respecting taxpayer rights and minimizing taxpayer burden;
- Expand enforcement approaches and tools;
- Meet the challenges of international tax administration;
- Allocate compliance resources using a data-driven approach to address existing and emerging high-risk areas;
- Continue focused oversight of the tax-exempt sector; and
- Ensure that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law.

To achieve the service and enforcement goals, the IRS has a strategic foundation supporting the objectives to:

- Build and deploy advanced information technology systems, processes, and tools that further improve IRS efficiency and productivity;
- Ensure the privacy and security of data and the safety and security of employees;
- Use data and research across the organization to make more informed

decisions and appropriately allocate resources; and

- Make the IRS the best place to work in government.

The IRS President's Budget request also supports the following Department of the Treasury Strategic and Agency Priority Goals:

Strategic Goal: Pursue Comprehensive Tax and Fiscal Reform

Agency Priority Goal: Increase Voluntary Tax Compliance

Strategic Goal: Manage the Government's Finances in a Fiscally Responsible Manner

Agency Priority Goal: Increase the Number of Electronic Transactions with the Public to Improve Service, Prevent Fraud, and Reduce Costs

Enforcement Program: The FY 2014 request provides funding to implement enacted legislation; protect revenue by identifying fraud and preventing issuance of questionable refunds including tax-related identity theft; increase compliance by addressing offshore tax evasion; make use of new information reporting requirements to reduce underreporting; strengthen examination and collection programs; expand enforcement efforts on noncompliance among corporate and high-wealth taxpayers; and strengthen return preparer compliance.

Increased resources for the IRS compliance programs yield direct, measurable results through high return on investment (ROI) activities. This request includes a \$412 million program integrity cap adjustment that will reduce the deficit through above-base funding for high ROI tax enforcement and compliance programs, of which \$5 million will be transferred to the Alcohol and Tobacco Tax and Trade Bureau (TTB). The \$407 million requested for the IRS FY 2014 enforcement

initiatives funded through this program integrity cap adjustment will generate more than \$1.6 billion in additional annual enforcement revenue once the new hires reach full potential in FY 2016. These resources will achieve a FY 2016 ROI of \$6.0-to-\$1, not including the indirect revenue effect of the deterrence value of these enforcement investments, which is estimated to be at least three times the direct revenue impact.

In addition to the new FY 2014 enforcement initiatives, the President's Budget also proposes new tax enforcement and compliance initiatives for the IRS and TTB funded via cap adjustments through 2018, with additional cap adjustments to sustain these initiatives from FY 2018 through 2023. In total, the proposal entails 10 years of cap adjustments costing \$13.8 billion while saving \$46.5 billion, for a net savings of \$32.7 billion.

Taxpayer Service Program: The FY 2014 request will allow the IRS to further improve customer service to meet taxpayer demand and continue delivering services to taxpayers using a variety of in-person, telephone, and web-based methods to help taxpayers understand their tax obligations, correctly file their returns, and pay taxes due in a timely manner.

Providing quality taxpayer service is especially important to help taxpayers avoid making unintentional errors. Assisting taxpayers with their questions before they file their returns prevents inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Taxpayer demand for self-service and electronic service options at the IRS has dramatically increased in recent years. To support this demand, and transition taxpayers to less expensive, more efficient options, the IRS requests resources to support the Treasury Department's efforts to expand the use of electronic transactions including

new service options such as eTranscripts and Online Payment Agreements/Installment Agreements that will allow more taxpayers to interact with the IRS through the internet. Technology enhancements to IRS.gov and continued investments in electronic filing under the Business Systems Modernization (BSM) program have dramatically expanded the ways in which taxpayers can reach the IRS. In 2012, there were more than 372 million visits to *www.IRS.gov*, and more than 132 million taxpayers checked their refund status by accessing the *Where's My Refund?* web application in English or in Spanish on the IRS website. Taxpayers also used the automated features found at 1-800-829-1040.

Business Systems Modernization: IRS modernization efforts focus on building and deploying advanced information technology

systems, processes, and tools to improve efficiency and productivity. The FY 2014 request will build on the momentum of implementing new daily processing during the calendar year 2012 filing season and the delivery of a new database for individual taxpayer account data by investing in state-of-the-art capabilities, such as online taxpayer services, that leverage the database infrastructure that is now in place. IRS processing systems are now accepting virtually all 1040 forms electronically, and for the first time, feeding those returns through a single, consolidated taxpayer account database. The next phase, known as Transition State 2, will eliminate the risks associated with antiquated technologies and programming languages that are still used in the current IRS environment.

IRS FY 2014 Budget Highlights

Dollars in Thousands

Appropriation	Taxpayer Services		Enforcement		Operations Support		Business Systems Modernization		Total	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2012 Enacted¹	\$2,239,703	30,290	\$5,299,367	48,297	\$3,947,416	12,454	\$330,210	605	\$11,816,696	91,646
FY 2013 Annualized CR Rate	\$2,253,510	30,402	\$5,331,000	46,702	\$3,971,000	12,240	\$332,231	513	\$11,887,741	89,857
FY 2014 Changes to Base:										
Non-Recur CR Increase:	(\$13,807)		(\$31,633)		(\$23,584)		(\$2,021)		(\$71,045)	
Non-Recur CR Increase	(13,807)		(31,633)		(23,584)		(2,021)		(71,045)	
Maintaining Current Levels (MCLs):	\$22,391		\$50,551		\$52,115		\$617		\$125,674	
Pay Inflation Adjustment	19,277		45,802		13,977		617		79,673	
Non-Pay Inflation Adjustment	3,114		4,749		38,138				46,001	
Efficiency/Savings:	(\$18,208)	(251)	(\$56,605)	(460)	(\$150,051)	(146)	(\$30,000)		(\$254,864)	(857)
Increase e-File Savings	(4,969)	(101)			(71)				(5,040)	(101)
Business Systems Modernization (BSM) Savings							(30,000)		(30,000)	
Reduce Information Technology (IT) Infrastructure					(57,500)				(57,500)	
Implement Human Capital Administrative Efficiencies					(7,858)	(73)			(7,858)	(73)
Targeted Personnel Savings	(13,239)	(150)	(56,605)	(460)	(7,922)	(73)			(77,766)	(683)
Savings from Space Optimization					(76,700)				(76,700)	
Reinvestment:					\$37,500				\$37,500	
Implement Space Optimization to Achieve Savings					37,500				37,500	
Subtotal FY 2014 Changes to Base		(251)	(\$37,687)	(460)	(\$84,020)	(146)	(\$31,404)		(\$162,735)	(857)
FY 2014 Current Services (Base)	\$2,243,886	30,151	\$5,293,313	46,242	\$3,886,980	12,094	\$300,827	513	\$11,725,006	89,000
Program Changes:										
Taxpayer Services Initiative:	\$130,306	1,863	\$3,250	32	\$43,501	40			\$177,057	1,935
Improve Taxpayer Service and Meet Increased Demand	130,306	1,863	3,250	32	43,501	40			177,057	1,935
Enforcement Initiatives:	\$38,384	561	\$365,224	3,713	\$201,675	248			\$605,283	4,522
Implement Foreign Account Tax Compliance Act (FATCA)			19,600	204	15,590	29			35,190	233
Address International and Offshore Compliance Issues			43,311	329	6,043				49,354	329
Implement Merchant Card and Basis Matching	7,643	153	30,275	370	12,361	13			50,279	536
Address Impact of Affordable Care Act (ACA) Statutory Requirements	1,124	8	26,084	223	17,212	52			44,420	283
Improve Identification and Prevention of Refund Fraud and Identity Theft	19,269	236	48,361	538	33,468	76			101,098	850
Increase Audit Coverage to Address Tax Compliance Issues			71,453	773	39,482	24			110,935	797
Increase Collection Coverage			36,261	573	24,213				60,474	573
Expand Coverage of High-Wealth Individuals and Enterprises			29,456	242	4,509				33,965	242
Improve Coverage of Partnerships and Flow-Through Entities			39,136	320	5,877				45,013	320
Build Out Tax Return Preparer Compliance Activities			15,982	124	2,333				18,315	124
Leverage Data to Improve Case Selection	10,348	164	4,474	10	36,879	53			51,701	227
Leverage Digital Evidence for Criminal Investigation (CI)			831	7	3,708	1			4,539	8
Infrastructure Initiatives:					\$348,687	761			\$348,687	761
Implement IT Changes to Deliver Tax Credits and Other Requirements					305,645	722			305,645	722
Develop New Online Services					24,059	37			24,059	37
Develop Converged Telecommunication Networks					15,000				15,000	
Expand Virtual Services Delivery (VSD)					3,983	2			3,983	2
Alcohol and Tobacco Tax and Trade Bureau (TTB) Program Integrity Transfer:			\$5,000						\$5,000	
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities			5,000						5,000	
Subtotal FY 2014 Program Changes	\$168,690	2,424	\$373,474	3,745	\$593,863	1,049			\$1,136,027	7,218
Total FY 2014 Budget Request	\$2,412,576	32,575	\$5,666,787	49,987	\$4,480,843	13,143	\$300,827	513	\$12,861,033	96,218

¹FY 2012 Enacted represents the approved FY 2012 Operating Plan.

FY 2014 Budget Adjustments

Non-Recurring Costs

Non-Recur CR Increase

-\$71,045,000 / 0 FTE

The full year equivalent of the across-the-board 0.612 percent increase provided in the CR through March 27, 2013 is non-recurred.

Maintaining Current Level (MCLs)

Pay Inflation Adjustment

+\$79,673,000 / 0 FTE

The President's Budget proposes a one percent pay raise for federal employees in 2014.

Non-Pay Inflation Adjustment

+\$46,001,000 / 0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies, and equipment.

Efficiency Savings

Increase e-File Savings

-\$5,040,000 / -101 FTE

These savings are a result of reduced paper returns. The IRS projects taxpayers will file 1,587,800 fewer paper returns (666,200 individual and 921,600 business returns) and instead choose to e-file. As a result, the IRS will need 101 fewer FTE in submission processing, generating a savings of \$5,040,000.

Business Systems Modernization (BSM) Savings *-\$30,000,000 / 0 FTE*

This reduction provides an FY 2014 funding level of \$300,827,000 that is required for the IRS to continue modernization of critical information technology systems that support the nation's revenue base, including the Customer Account Data Engine 2 (CADE 2) and Modernized e-File (MeF) programs.

Reduce Information Technology (IT) Infrastructure *-\$57,500,000 / 0 FTE*

In FY 2014, IRS IT will continue to implement industry best practices to shape the future of information technology development and ongoing operational support to provide a

more robust foundation for expanding IT capabilities in the future. In FY 2014, reductions to IT resources will be managed through streamlining operational requirements with efforts to standardize, consolidate, and virtualize the infrastructure and application portfolio by employing technology to accomplish tasks in a more resource-efficient manner. By adopting common technologies, managing demand, and strategic procurement opportunities the IRS will make more efficient use of its resources.

Implement Human Capital Administrative Efficiencies *-\$7,858,000 / -73 FTE*

The IRS will achieve human capital administrative efficiencies by reducing costs and streamlining operations. The IRS will partner with Treasury to eliminate the redundant costs of collecting duplicate HR reporting data from the National Finance Center; implement improvements in the Human Capital employment program; redesign manager and employee training programs to generate staff, contract services, and travel savings; and streamline existing human resources processes by using technology and eliminating redundancy.

Targeted Personnel Savings *-\$77,766,000 / -683 FTE*

Although the budget requests increased staffing resources to support a number of strategic priorities, at the same time, the IRS has been very focused on managing personnel costs and reducing staffing across many operational areas. These personnel savings are the result of the annualization of FY 2013 attrition savings. To achieve these reductions, the IRS reduced overall staffing by filling critical vacancies only; streamlining the workforce by reducing administrative, analyst, and support positions; realigning mission critical occupations by eliminating positions vacated by employees with outdated skills and hiring employees who have the background and skills to support the IRS in meeting its strategic goals, objectives and priorities; and

decreasing non-labor costs, such as travel, office supplies, and training services, associated with targeted personnel savings.

Savings from Space Optimization
-\$76,700,000 / 0 FTE

In an effort to promote more efficient use of the Government's real estate assets and to generate savings, the IRS plans to close, consolidate and reduce the IRS's space inventory, considering such factors as the next closest post-of-duty, number of employees affected, timing of lease, alteration costs, number of vacant workstations, and number of field-based employees. As part of this effort, the IRS will develop implementation strategies to minimize the effect on employees.

Reinvestment

Implement Space Optimization to Achieve Savings +\$37,500,000 / 0 FTE

To achieve the space optimization savings identified above, the IRS will require a one-time reinvestment of \$37.5 million to implement rent reduction and mid-size post-of-duty closure projects in FY 2014 and reduce future annual rent costs by \$76.7 million from the FY 2012 actual rent expenditures.

Program Increases

Improve Taxpayer Service and Meet Increased Demand +\$177,057,000 / +1,935 FTE

This initiative will provide resources to meet the expected demand increase for taxpayer services and will increase the Customer Service Representative (CSR) Level of Service (LOS) in FY 2014 from the 67.6 percent LOS achieved in FY 2012 to a projected 79 percent. Resources are needed to address the projected growth in demand for traditional taxpayer services such as answering tax law questions and resolving accounts as well as \$89.5 million to enhance taxpayer assistance and outreach to individuals, businesses, and third parties affected by the implementation of the Affordable Care Act (ACA) (Public

Law 111-148) tax provisions (including provisions related to health insurance exchanges). It also expands use of community-based partners to assist taxpayers in applying for advanced tax credits in FY 2014 and provides resources for reducing paper correspondence inventories and developing new technologies to improve service to taxpayers.

Implement Foreign Account Tax Compliance Act (FATCA) +\$35,190,000 / +233 FTE

This initiative will provide the resources for the IRS to implement changes required by enactment of FATCA included in the Hiring Incentives to Restore Employment (HIRE) Act of 2010 (Public Law 111-147). New reporting, disclosure, and withholding requirements will produce additional annual enforcement revenue of \$115.4 million once the new hires reach full potential in FY 2016, an ROI of \$3.7 to \$1.

Address International and Offshore Compliance Issues +\$49,354,000 / +329 FTE

This initiative will strengthen enforcement activities to address offshore tax evasion and expand the IRS's global presence and pursuit of international tax and financial crimes. The IRS continues to address tax-avoidance schemes involving offshore activity. This request will address the significant growth in international activities in the global tax environment and produce additional annual enforcement revenue of \$192.8 million, once the new hires reach full potential in FY 2016, an ROI of \$4.5 to \$1.

Implement Merchant Card and Basis Matching +\$50,279,000 / +536 FTE

This initiative will allow the IRS to take advantage of the reporting provisions for merchant payment card and third party reimbursements enacted in the Housing and Economic Recovery Act of 2008 (Public Law 110-289); and basis reporting on security sales enacted in the Emergency Economic Stabilization Act of 2008 (Public Law 110-343).

These efforts will ensure business and individual taxpayers meet their tax obligations; investigate discrepancies related to payment card and securities basis reporting issues; address fraud and criminal violations that will be uncovered as the IRS establishes broader compliance programs; and leverage technology through the increased development and deployment of workforce tools, issue management systems, and management information systems.

This initiative will produce additional annual enforcement revenue of \$362.9 million, once the new hires reach full potential in FY 2016, an ROI of \$8.5 to \$1.

Address Impact of Affordable Care Act (ACA) Statutory Requirements
+\$44,420,000 / +283 FTE

As the tax law changes, the IRS must implement programs to ensure that taxpayers understand the new laws, and that the IRS can address noncompliance. This initiative will promote compliance activities related to new provisions included in the ACA, such as new requirements for tax-exempt hospitals, a new fee on manufacturers and importers of branded prescription drugs, the excise tax on indoor tanning, and new compliance responsibilities from the non-exchange related tax law changes.

This initiative will produce additional annual enforcement revenue of \$83.9 million, once the new hires reach full potential in FY 2016, an ROI of \$1.9 to \$1.

Improve Identification and Prevention of Refund Fraud and Identity Theft
+\$101,098,000 / +850 FTE

This initiative supports the IRS's efforts to prevent identity-related refund fraud, protect taxpayers' identities and assist victims of identity theft, and enhance the revenue protection strategy implemented in FY 2012. It will support the development and implementation of technology enhancements to identify noncompliant returns before

refunds are issued; manage and track workload and case results; send notification letters to taxpayers; and allow third party data to be used earlier in the filing season. This will both improve detection of fraudulent returns and reduce delays of legitimate refunds due to pre-refund compliance activities. While this initiative is not included in the IRS's traditional ROI calculations, investment in these activities is projected to protect \$1.3 billion in revenue, once the new hires reach full potential in FY 2016, a protected revenue ROI of \$14.4 to \$1.

Increase Audit Coverage to Address Tax Compliance Issues
+\$110,935,000 / +797 FTE

This initiative will ensure the IRS maintains individual examination coverage and that critical noncompliance issues are addressed effectively and partially restores enforcement resources to levels found several years ago prior to large budget cuts. Apart from detecting noncompliance directly, maintaining examination coverage also promotes voluntary compliance both by increasing the likelihood that intentional noncompliance will be detected and reassuring compliant taxpayers of the fairness of the tax administration system. This initiative will allow the IRS to increase staffing levels in traditional field examination programs to ensure consistent audit coverage; expand the IRS correspondence examination program to provide focused attention on refundable credits; expand voluntary compliance of tax exempt organizations; and address increasing Appeals workload.

This initiative will produce annual enforcement revenue of \$295.6 million, once the new hires reach full potential in FY 2016, an ROI of \$3.2 to \$1.

Increase Collection Coverage
+\$60,474,000 / +573 FTE

This initiative will ensure that the IRS has sufficient resources to work the collection inventory to bring taxpayers who fail to pay

their tax debt into compliance and partially restores enforcement resources to levels found several years ago prior to large budget cuts. This initiative includes staffing to address growing collection case inventories and incoming call volumes in the Automated Collection System (ACS); balance due correspondence and phone work and installment agreement calls in the Compliance Services Collection Operation (CSCO) Program; and increased workload in the Offers in Compromise (OIC) Program, which helps taxpayers experiencing economic hardship resolve their tax liabilities.

This initiative will produce additional annual enforcement revenue of \$496.3 million, an ROI of \$9.3 to \$1.

Expand Coverage of High-Wealth Individuals and Enterprises +\$33,965,000 / +242 FTE

This initiative will continue the IRS's efforts to focus on high-wealth taxpayers by increasing risk identification, case building, and examination capabilities. High-wealth individuals frequently operate complex enterprises consisting of multiple, interrelated businesses and flow-through entities that often have international components. The IRS takes a unified look at the entire web of business entities controlled by high-wealth individuals to better assess the risks of noncompliance. This initiative will produce additional annual enforcement revenue of \$368.9 million, once the new hires reach full potential in FY 2016, an ROI of \$13.4 to \$1.

Improve Coverage of Partnerships and Flow-Through Entities +\$45,013,000 / +320 FTE

Partnership businesses continue to be the fastest growing segment of all tax returns filed. This initiative will increase the identification and audit coverage of partnerships and flow-through entities; increase the number of auditors with specialized knowledge in partnership law; strengthen enforcement activities relating to flow-through entities; and improve compliance by enhancing Tax Equity

and Fiscal Responsibility (TEFRA) procedures. This initiative will produce additional annual enforcement revenue of \$293.0 million, once the new hires reach full potential in FY 2016, an ROI of \$7.7 to \$1.

Build Out Tax Return Preparer Compliance Activities +\$18,315,000 / +124 FTE

This initiative will improve taxpayer compliance and the accuracy of returns filed by tax professionals; protect taxpayers by establishing a registered community of tax professionals; and foster a stakeholder-driven culture that encourages voluntary compliance. With this request, the IRS will ensure uniform, high ethical standards of conduct for tax preparers by enforcing preparer compliance with IRS rules, increasing preparer examinations, and monitoring and pursuing preparers engaged in fraudulent activities, including noncompliant Earned Income Tax Credit (EITC) return preparers. This initiative is core to the IRS tax gap strategy and will ensure the IRS's ability to deliver high-priority, preparer-related enforcement activities.

Leverage Data to Improve Case Selection +\$51,701,000 / +227 FTE

This initiative will provide the resources to leverage technology to improve data accessibility and usability for better case selection, issue identification, and treatment assignment. Taxpayer behavior, including noncompliant behavior, is constantly changing. The IRS must adapt quickly to changing taxpayer behavior to prevent fraud and tax code misuse. This initiative will significantly increase the digital availability of tax return information. The IRS will then leverage this data through an analytical computing and data testing environment to identify taxpayer behavioral changes more quickly and test compliance responses promptly; and optimize compliance case identification and treatment assignment to increase effectiveness while reducing risk and costs.

Improved use of analytics will increase revenue collection and, while this is not included in the IRS's traditional ROI calculations, this initiative is projected to increase revenue by \$75.7 million in FY 2016, achieving an ROI of \$1.5 to \$1.

Leverage Digital Evidence for Criminal Investigation (CI) +\$4,539,000 / +8 FTE

This initiative will automate current CI processes by implementing a virtual digital evidence processing environment. This will allow CI to expedite and enhance the analysis of electronic data by special agents, computer investigative specialists, and other investigative staff assigned to an investigation.

Implement IT Changes to Deliver Tax Credits and Other Requirements +\$305,645,000 / +722 FTE

To implement the new tax law provisions contained in the Affordable Care Act (ACA), the IRS must invest in new technology (infrastructure and applications) and significantly modify existing IRS tax administration systems. This effort requires implementing complex changes to support processing of the new premium assistance tax credit to help certain individuals afford health insurance starting in 2014; the small business health care tax credit for employers; the individual and employer responsibility provisions; and the new information reporting requirements for federal and state exchanges, certain large employers, and insurance issuers. The IRS will implement these changes across all submission processing, fraud, and compliance tax administration systems to receive, validate and process individual tax returns. These efforts will facilitate prompt and accurate application of the premium tax credit to eligible citizens while protecting against erroneous and potentially fraudulent tax credit claims.

Develop New Online Services +\$24,059,000 / +37 FTE

The funding requested in this initiative will allow the IRS to deliver new online products and services on IRS.gov, which will simplify the taxpayer online experience, facilitate self-service transactions, and meet increasing taxpayer demands for more online and self-service applications. To keep up with the ever-changing state of web technology, the IRS must develop online capabilities and deliver new online services to taxpayers, tax practitioners, and internal IRS stakeholders. These funds will improve IRS infrastructure and capabilities while delivering new taxpayer services. This includes prevention of improper access to taxpayer information and development of taxpayer and practitioner self-service applications that do not exist today such as viewable eTranscripts, Power of Attorney (POA), and Online Payment Agreements/Installment Agreements.

Develop Converged Telecommunication Networks +\$15,000,000 / 0 FTE

This initiative will allow the IRS to complete the replacement of failing infrastructure with converged telecommunication networks. The IRS is leveraging the Treasury Network (TNet) as a foundation for merging data services onto a shared, enterprise-wide network platform. Merging data, voice, and multimedia into a single infrastructure will allow all IRS sites to share a common, cost-effective communications infrastructure. In addition, it will provide operating efficiencies and advanced functionality to customers.

Expand Virtual Services Delivery (VSD) +\$3,983,000 / +2 FTE

The resources requested in this initiative will facilitate the deployment of 100 new VSD video technology units. These VSD units allow face-to-face contact between IRS employees and taxpayers at remote sites through two-way video conferencing. By placing VSD units in understaffed and

unstaffed Taxpayer Assistance Centers (TACs), Taxpayer Advocate Service (TAS) sites, and Low Income Tax Clinic (LITC) locations, the IRS will be able to resolve taxpayer issues virtually. VSD video technology also will allow the IRS to explore conducting virtual tax examinations and other interactions with taxpayers.

Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities +\$5,000,000 / 0 FTE

The IRS will transfer \$5 million to TTB for those high-ROI tax enforcement activities that produce additional revenue through program activities designated to narrow the Federal excise tax gap on alcohol and tobacco commodities. More detailed information can be found in the TTB FY 2014 Budget in Brief.

Return on Investment for IRS FY 2014 Enforcement Initiatives to Implement Enacted Legislation

Dollars in Millions						
	First Year (FY 2014)			Full Performance (FY 2016)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Revenue-Producing Enforcement Initiatives Before the Cap Adjustment	\$129.9	\$238.3	1.8	\$117.9	\$562.2	4.8
Implement Foreign Account Tax Compliance Act (FATCA)	35.2	49.6	1.4	31.5	115.4	3.7
Implement Merchant Card and Basis Matching	50.3	152.4	3.0	42.5	362.9	8.5
Address Impact of Affordable Care Act (ACA) Statutory Requirements	44.4	36.3	0.8	43.9	83.9	1.9

Return on Investment for IRS FY 2014 Cap Adjustment Enforcement Initiatives

Dollars in Millions						
	First Year (FY 2014)			Full Performance (FY 2016)		
	Cost	Revenue	ROI	Cost	Revenue	ROI
Cap Adjustment Revenue-Producing Enforcement Initiatives	\$322.6	\$776.2	2.4	\$273.2	\$1,646.6	6.0
Immediate and Directly Measurable Revenue-Producing Initiatives	\$299.7	\$776.2	2.6	\$254.1	\$1,646.6	6.5
Address International and Offshore Compliance Issues	49.3	86.2	1.7	42.4	192.8	4.5
Increase Audit Coverage to Address Tax Compliance Issues	110.9	155.9	1.4	92.8	295.6	3.2
Increase Collection Coverage	60.5	221.5	3.7	53.3	496.3	9.3
Expand Coverage of High-Wealth Individuals and Enterprises	34.0	176.3	5.2	27.6	368.9	13.4
Improve Coverage of Controlled Partnerships and Flow-Through Entities	45.0	136.3	3.0	38.0	293.0	7.7
Strategic Revenue-Producing Initiative <i>(which does not have immediately measurable ROI, but clear long-term revenue effects)</i>	\$22.9	\$0.0	0.0	\$19.1	\$0.0	0.0
Build Out Tax Return Preparer Compliance Activities	18.3	0.0	0.0	14.6	0.0	0.0
Leverage Digital Evidence for Criminal Investigation (CI)	4.6	0.0	0.0	4.5	0.0	0.0

Explanation of Budget Activities

Taxpayer Services

The FY 2014 President's Budget request is \$2,412,576,000 in direct appropriations, an estimated \$21,360,000 from reimbursable programs, and an estimated \$151,242,000 from user fees, for a total operating level of \$2,585,178,000. This appropriation funds the following budget activities.

Pre-filing Taxpayer Assistance & Education (\$660,197,000 from direct appropriations, an estimated \$98,000 from reimbursable resources, and an estimated \$10,000,000 from user fees)

This budget activity funds services to assist with tax return preparation, including tax law interpretation, publication, production, and advocate services. In addition, funding for these programs continues to emphasize taxpayer education, outreach, increased volunteer support time and locations, and enhancing pre-filing taxpayer support through electronic media.

Filing & Account Services (\$1,752,379,000 from direct appropriations, an estimated \$21,262,000 from reimbursable resources, and an estimated \$141,242,000 from user fees)

This budget activity funds programs that provide filing and account services to taxpayers, process paper and electronically-submitted tax returns, issue refunds, and maintain taxpayer accounts. This budget activity also provides operating resources to administer the advance payment feature of the Trade Act of 2002 (Public Law 107-210) health insurance tax credit program, which assists dislocated workers with their health insurance premiums.

Enforcement

The FY 2014 President's Budget request is \$5,666,787,000 in direct appropriations and an estimated \$65,619,000 from reimbursable programs, and an estimated \$18,205,000 from user fees, for a total operating level of

\$5,750,611,000. To reduce future deficits, a portion of this appropriation, \$245,904,000, is requested as part of the \$411,990,000 total program integrity cap adjustment for IRS, which includes an above-base investment in tax enforcement and compliance programs, including a \$5,000,000 transfer to TTB for high return on investment enforcement activities. In conjunction with specified funds provided in the IRS Operations Support account, this increment will support tax compliance initiatives expected to generate high returns on investment in the form of increased tax revenues. This appropriation funds the following budget activities.

Investigations (\$661,631,000 from direct appropriations, and an estimated \$58,402,000 from reimbursable resources)

This budget activity funds the Criminal Investigation (CI) programs that explore potential criminal and civil violations of tax laws; enforce criminal statutes relating to violations of tax laws and other financial crimes; and recommend prosecution as warranted. These programs identify and document the movement of both legal and illegal sources of income to identify and document cases of suspected intent to defraud. This budget activity also provides resources for international investigations involving U.S. citizens residing abroad, non-resident aliens, and expatriates, and includes investigation and prosecution of tax and money-laundering violations associated with narcotics organizations.

Exam & Collections (\$4,842,007,000 from direct appropriations, an estimated \$6,541,000 from reimbursable resources, and an estimated \$5,000 from user fees)

This budget activity funds programs that enforce the tax laws and increase compliance through examination and collection programs that ensure proper payment and tax reporting. It also includes programs such as specialty tax examinations (employment tax, excise tax, and

estate and gift tax exams), international collections, and international examinations. The budget activity also provides for campus support of the Questionable Refund program and appeals and litigation activities associated with exam and collection.

Regulatory (\$163,149,000 from direct appropriations, an estimated \$676,000 from reimbursable resources, and an estimated \$18,200,000 from user fees)

This budget activity funds the development and printing of published IRS guidance materials; interpretation of tax laws; internal advice to the IRS on general non-tax legal issues such as procurement, personnel, and labor relations; enforcement of regulatory rules, laws, and approved business practices; and support of taxpayers in the areas of pre-filing agreements, determination letters, and advance pricing agreements. The Return Preparer Program is funded within this activity in addition to the Office of Professional Responsibility, which is responsible for identifying, communicating, and enforcing the Treasury Circular 230 standards of competence, integrity, and conduct of professionals representing taxpayers before the IRS.

Operations Support

The FY 2014 President's Budget request is \$4,480,843,000 in direct appropriations, an estimated \$23,648,000 from reimbursable programs, and an estimated \$108,135,000 from user fees, for a total operating level of \$4,612,626,000. A portion of this appropriation, \$166,086,000, is requested as part of the \$411,990,000 program integrity cap adjustment for the IRS tax enforcement and compliance programs, which provides an above-base investment in these programs to reduce future deficits. In conjunction with specified funds provided to the IRS Enforcement account, this increment will support new tax compliance initiatives that are expected to generate high returns on

investment in the form of increased tax revenues. This appropriation funds the following budget activities.

Infrastructure (\$939,182,000 from direct appropriations, an estimated \$1,044,000 from reimbursable resources, and an estimated \$17,137,000 from user fees)

This budget activity funds administrative services related to space and housing, rent and space alterations, building services, maintenance, guard services, and non-IT equipment.

Shared Services & Support (\$1,305,701,000 from direct appropriations, an estimated \$15,806,000 from reimbursable resources, and an estimated \$31,520,000 from user fees)

This budget activity funds policy management, IRS-wide support for research, strategic planning, communications and liaison, finance, human resources, and equity, diversity, and inclusion programs. It also funds printing and postage, business systems planning, security, corporate training, legal services, procurement, and specific employee benefits programs.

Information Services (\$2,235,960,000 from direct appropriations, an estimated \$6,798,000 from reimbursable resources, and an estimated \$59,478,000 from user fees)

This budget activity funds staffing, equipment, and related costs to manage, maintain, and operate the information systems critical to the support of tax administration programs. This includes the design and operation of security controls and disaster recovery planning. This budget activity funds the development and maintenance of the millions of lines of programming code that support all aspects and phases of tax processing and the operation and administration of the mainframes, servers, personal computers, networks, and a variety of management information systems.

Business Systems Modernization

The FY 2014 President's Budget request is \$300,827,000 in direct appropriations. This appropriation funds the following budget activity.

Business Systems Modernization (\$300,827,000 from direct appropriations)

This budget activity funds the planning and capital asset acquisition of information technology (IT) to continue the modernization of IT systems, including labor and related contractual costs.

Legislative Proposals

The FY 2014 President's Budget request includes a number of legislative proposals intended to reduce the tax gap and improve tax compliance with minimal taxpayer burden. The Treasury Office of Tax Analysis (OTA) estimates these new tax gap proposals will generate \$77.9 billion over the next ten years

which includes \$46.5 billion generated by program integrity cap adjustments. The IRS estimates the implementation cost for the tax gap proposals included in the FY 2013 President's Budget that have not yet been enacted, to be \$84.1 million over three years, including the initial startup, processing, and compliance operational costs. The Administration proposes to expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties. The Budget also proposes to amend the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, to provide 10-years (FYs 2014-2023) of discretionary caps to permit program integrity cap adjustments costing \$13.8 billion and delivering \$46.5 billion in additional revenue, thereby generating \$32.7 billion in net savings over the 10-year budget window.

IRS Performance by Program

Program	Performance Measure	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
		Actual	Actual	Actual	Target	Target
Taxpayer Services	Customer Contacts Resolved Per Staff Year	10,744	12,419	16,320	16,754	17,198
Taxpayer Services	Customer Service Representative (CSR) Level of Service (%)	74.0	70.1	67.6	70.0	79.0
Taxpayer Services	Percent Individual Returns Processed Electronically (%)	69.3	76.9	80.5	80.0	81.0
Enforcement	Automated Collection System (ACS) Accuracy (%)	95.9	94.9	94.7	94.5	94.5
Enforcement	Automated Underreporter (AUR) Coverage (%)	3.0	3.3	3.2	2.9	3.1
Enforcement	Examination Efficiency - Individual (1040)	140	139	142	145	145

Key: DISC - Discontinued and B - Baseline

Description of Performance

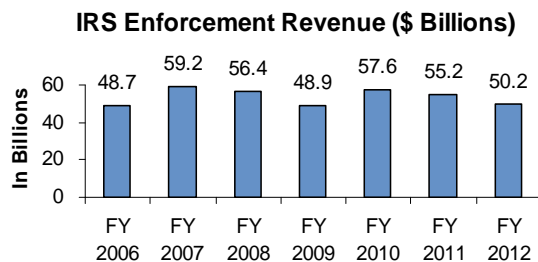
In FY 2012, the IRS continued to provide quality service to taxpayers and enforced the laws in a balanced manner. The following is a summary of significant program performance improvements.

Enforcement

Enforcement of the tax laws is an integral part of the IRS's effort to enhance voluntary compliance. IRS enforcement activities, such as examination and collection, remained a high priority. In FY 2012, the IRS maintained its international enforcement presence, continued efforts to engage with the tax return preparer

community, and made refund fraud and identity theft a top priority.

In FY 2012, collections related to all enforcement activities exceeded \$50 billion for the third consecutive year for a total IRS-wide ROI of \$4.2 to \$1. Although enforcement collections declined in FY 2012, it should be noted that IRS funding was reduced by roughly \$300 million in that year compared to FY 2011.



The IRS has shown progress in FY 2012 in several key enforcement programs and, as compared with FY 2011, the IRS increased:

- High income audits by 2.6 percent;
- Small business audits (assets less than \$10 million) by 19.5 percent;
- Large corporate audits by 5.0 percent; and
- Criminal investigations by 5.1 percent.

The IRS enhanced international compliance efforts by implementing new legislation and programs such as the Offshore Voluntary Disclosure Program (OVDP). In January 2012 the IRS reopened the OVDP indefinitely with tightened eligibility requirements in response to strong interest from taxpayers and tax practitioners. Since the program was established in 2009 through the end of FY 2012, the OVDP has resulted in a total of more than 38,000 disclosures of underpaid or unpaid taxes and the collection of more than \$5 billion in back taxes, interest, and penalties.

In addition, the IRS is working closely with businesses and foreign governments to implement the Foreign Account Tax Compliance Act (FATCA). This legislation strengthens offshore compliance efforts by creating new information reporting requirements on foreign financial institutions (FFIs) with respect to U.S. accounts, and establishing new withholding, documentation, and reporting requirements for payments made to certain foreign entities.

The IRS continued to implement its Return Preparer Program initiative begun in FY 2011. The foundation of this program is mandatory registration for all paid tax return preparers. Through September 2012, more than 860,000 preparers have requested Preparer Tax Identification Numbers (PTINs) using the online application system. This PTIN requirement provides an important and improved view of the return preparer community from which the IRS can leverage information to improve communications, analyze trends, spot anomalies, and detect potential fraud, including the refund fraud associated with the Earned Income Tax Credit (EITC) and identity theft. As a result of these efforts, the IRS initiated several hundred criminal investigations into return preparers and achieved a 97.3 percent conviction rate. The IRS also leveraged real time data during the 2012 filing season to improve the compliance of more than 1,400 preparers with high numbers of Earned Income Tax Credit (EITC) errors.

In FY 2012, the IRS expanded the Fresh Start initiative to assist struggling taxpayers with meeting their tax obligations. Changes included:

- Increasing the dollar threshold and repayment period for individual installment agreements;
- Providing more financial analysis flexibility for installment agreements and Offer in Compromise programs;

- Issuing new guidance to address unsecured debts such as student loans, credit cards, and state/local taxes;
- Providing a six-month grace period on failure-to-pay penalties to certain wage earners and self-employed individuals; and
- Extending help to taxpayers eligible for Innocent Spouse Program by eliminating the two-year timeframe for consideration of certain innocent spouse claims.

In FY 2012 the IRS identified and stopped fraudulent return filings and refunds through the Accounts Management Taxpayer Assurance Program (AMTAP) and Questionable Refund Program (QRP). The FY 2012 results included:

- Using the electronic fraud detection system (EFDS), AMTAP stopped more than 2.6 million fraudulent returns and more than \$19.2 billion in fraudulent refunds;
- Identifying 1,708 QRP schemes comprising 2,045,080 individual returns;
- Detecting and preventing \$12.3 billion in fraudulent QRP refunds;
- Achieving a 97.8 percent conviction rate, an 85.5 percent incarceration rate, and an 88.5 percent publicity rate on adjudicated QRP cases; and
- Recovering \$787 million from financial institutions returning fraudulent refunds to the IRS.

Taxpayer Service

By assisting taxpayers with their tax questions before they file their returns the IRS helps prevent inadvertent noncompliance and reduces burdensome post-filing notices and other correspondence from the IRS. Accordingly, the IRS provides year-round

assistance to millions of taxpayers through many sources, including outreach and education programs, issuance of tax forms and publications, rulings and regulations, toll-free call centers, IRS.gov, Taxpayer Assistance Centers (TACs), Volunteer Income Tax Assistance (VITA) sites, and Tax Counseling for the Elderly (TCE) sites.

IRS delivered a successful 2012 filing season, by:

- Initiating and revising more than 700 tax products;
- Receiving more than 147.6 million individual returns and issuing more than 121.6 million refunds totaling \$333 billion;
- Responding accurately to 93.2 percent of tax law questions and 95.6 percent of account questions;
- Processing more than 3.1 million free file returns;
- Direct-depositing more than 82.8 million refunds compared to 78.9 million in 2011, a 4.9 percent increase; and
- Receiving 80.5 percent of individual returns electronically, an increase of 4.7 percent.

The IRS received more than 118.9 million individual tax returns electronically. Filing season electronic filing results increased as compared to 2011. This included:

- Business returns electronically filed up 15 percent to 36.7 percent;
- Home computer filing up 9.8 percent to 43.5 million tax returns; and
- Tax professional use of e-file up 5.4 percent to 75.6 million returns.

The IRS continued to provide alternative service options by increasing the amount of tax information and services available to

taxpayers through IRS.gov. Taxpayers viewed IRS.gov web pages more than 1.7 billion times as they used the website to:

- **Get forms and publications.** More than 347 million tax products were downloaded, an increase of 51 percent from FY 2011.
- **Link to the Electronic Federal Tax Payment System (EFTPS).** EFTPS processed more than 132.4 million electronic tax payments totaling \$2.1 trillion.
- **Get answers.** Taxpayers made more than 1.1 million visits to the Interactive Tax Assistant introduction page where taxpayers can receive answers to tax law questions.
- **Check on their refunds.** Taxpayers used *Where's My Refund?* more than 132.3 million times to check on the status of their tax refunds.

The IRS is increasing communications with taxpayers who do not get their information from traditional sources, such as newspapers and broadcast and cable news. By employing social and new media, such as YouTube, Twitter, and iTunes, the IRS reaches these taxpayers and provides important service and compliance messages.

In FY 2012, the IRS videos on the YouTube channel reached a milestone by topping 3.6 million total taxpayer views, making it the Federal Government's fourth most-viewed YouTube channel.

Other notable accomplishments in FY 2012 include:

- Releasing an updated version of the IRS2GO Smartphone application with new features that let taxpayers interact with the IRS using their mobile device and resulted in more than 6.2 million applications launched;

- Posting a "When Will I Get My Refund?" video on YouTube, attracting approximately 713,000 views; and
- Administering a Facebook page directed at educating and informing return preparers, which currently has approximately 16,000 regular followers.

The IRS enhanced its outreach and educational services by collaborating with state taxing authorities, volunteer groups, and other organizations to address taxpayer needs. By supporting more than 3,900 local partners and a combined 13,143 Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites, the IRS provided free tax assistance to the elderly, disabled, and limited English proficient individuals and families.

In FY 2012, nearly 99,000 volunteers prepared almost 3.3 million federal returns and more than 2.5 million state returns, which represent increases over FY 2011 of 2.4 percent and 5.9 percent, respectively. In addition, 95 percent of the federal returns were filed electronically.

Business Systems Modernization

IRS modernization efforts focus on building and deploying advanced information technology systems, processes, and tools to improve efficiency and productivity.

FY 2012 successes included:

- Removal from GAO's High-Risk List. After 18 years, in February 2013, GAO removed the IRS Business Systems Modernization program from its High-Risk List. GAO concluded that the IRS had made substantial progress in addressing weaknesses over the past several years and had demonstrated a commitment to sustained progress.
- Customer Account Data Engine 2 (CADE 2). After more than 50 years of weekly posting of returns, payments,

and other transactions, CADE 2 Transition State 1 successfully deployed its daily processing functionality in January 2012. Daily processing and posting of individual taxpayer accounts enabled faster refunds for more taxpayers, more timely accounts updates, better information for customer service representatives, and faster issuance of taxpayer notices.

- Modernized e-File (MeF). Modernized e-File (MeF) Release 7 became operational for the FY 2012 filing season. The IRS completed the three-year migration of the 1040 form family from the original e-file system to the MeF system. With this capability, plus significant performance improvements to support the anticipated volumes, the IRS will process all electronically enabled 1040 forms and schedules through MeF during filing season 2013. The IRS processed nearly 107 million individual Federal and State returns, and more than 14.3 million Business Master File returns through MeF, totaling 121.3 million in FY 2012.

Summary of Proposed FY 2014 Affordable Care Act (ACA) Budget Request

Dollars in Thousands

FY 2014 Affordable Care Act (ACA)	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		TOTAL	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
Program Increases:								
Enhance Taxpayer Service to Meet Increased Demand	70,322	908	3,250	32	15,947	9	89,519	949
Address Impact of Affordable Care Act (ACA) Statutory Requirements	1,124	8	26,084	223	17,212	52	44,420	283
Implement IT Changes to Deliver Tax Credits and Other Requirements					305,645	722	305,645	722
Total FY 2014 ACA Budget Request	\$71,446	916	\$29,334	255	\$338,804	783	\$439,584	1,954

IRS FY 2014 Summary of Proposed Program Integrity Cap Adjustment

Dollars in Thousands

Appropriation	Taxpayer Services		Enforcement		Operations Support		Business Systems Modernization		Total	
	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2012 Enacted ¹	\$2,239,703	30,290	\$5,299,367	48,297	\$3,947,416	12,454	\$330,210	605	\$11,816,696	91,646
FY 2013 Annualized CR Rate	\$2,253,510	30,402	\$5,331,000	46,702	\$3,971,000	12,240	\$332,231	513	\$11,887,741	89,857
FY 2014 Changes to Base:										
Non-Recur CR Increase:	(\$13,807)		(\$31,633)		(\$23,584)		(\$2,021)		(\$71,045)	
Maintaining Current Levels (MCLs):	\$22,391		\$50,551		\$52,115		\$617		\$125,674	
Pay Inflation Adjustment	19,277		45,802		13,977		617		79,673	
Non-Pay Inflation Adjustment	3,114		4,749		38,138				46,001	
Efficiencies/Savings:	(\$18,208)	(251)	(\$56,605)	(460)	(\$150,051)	(146)	(\$30,000)		(\$254,864)	(857)
Increase e-File Savings	(4,969)	(101)			(71)				(5,040)	(101)
Business Systems Modernization (BSM) Savings							(30,000)		(30,000)	
Reduce Information Technology (IT) Infrastructure					(57,500)				(57,500)	
Implement Human Capital Administrative Efficiencies					(7,858)	(73)			(7,858)	(73)
Targeted Personnel Savings	(13,239)	(150)	(56,605)	(460)	(7,922)	(73)			(77,768)	(683)
Savings from Space Optimization					(76,700)				(76,700)	
Reinvestment:					\$37,500				\$37,500	
Implement Space Optimization to Achieve Savings					37,500				37,500	
Subtotal FY 2014 Changes to the Base	(\$9,624)	(251)	(\$37,687)	(460)	(\$84,020)	(146)	(\$31,404)		(\$162,735)	(857)
FY 2014 Current Services (Base)	\$2,243,886	30,151	\$5,293,313	46,242	\$3,886,980	12,094	\$300,827	513	\$11,725,006	89,000
Program Changes:										
Program Increases Before Cap Adjustment:										
<i>Promote Voluntary Compliance, Implement Legislative Changes, and Protect Revenue:</i>	\$168,690	2,424	\$127,570	1,367	\$427,777	932			\$724,037	4,723
Improve Taxpayer Service and Meet Increased Demand	130,306	1,863	3,250	32	43,501	40			177,057	1,935
Implement Foreign Account Tax Compliance Act (FATCA)			19,600	204	15,590	29			35,190	233
Implement Merchant Card and Basis Matching	7,643	153	30,275	370	12,361	13			50,279	536
Address Impact of Affordable Care Act (ACA) Statutory Requirements	1,124	8	26,084	223	17,212	52			44,420	283
Implement IT Changes to Deliver Tax Credits and Other Requirements					305,645	722			305,645	722
Improve Identification and Prevention of Refund Fraud and Identity Theft	19,269	236	48,361	538	33,468	76			101,098	850
Leverage Data to Improve Case Selection (Taxpayer Services portion)	10,348	164							10,348	164
Total Request Before Cap Adjustment	\$2,412,576	32,575	\$5,420,883	47,609	\$4,314,757	13,026	\$300,827	513	\$12,449,043	93,723
Cap Adjustment Program Increases:										
Enforcement Initiatives:			\$240,904	2,378	\$123,044	78			\$363,948	2,456
Address International and Offshore Compliance Issues			43,311	329	6,043				49,354	329
Increase Audit Coverage to Address Tax Compliance Issues			71,453	773	39,482	24			110,935	797
Increase Collection Coverage			36,261	573	24,213				60,474	573
Expand Coverage of High-Wealth Individuals and Enterprises			29,456	242	4,509				33,965	242
Improve Coverage of Partnerships and Flow-Through Entities			39,136	320	5,877				45,013	320
Build Out Tax Return Preparer Compliance Activities			15,982	124	2,333				18,315	124
Leverage Data to Improve Case Selection			4,474	10	36,879	53			41,353	63
Leverage Digital Evidence for Criminal Investigation (CI)			831	7	3,708	1			4,539	8
Infrastructure Initiatives:					\$43,042	39			\$43,042	39
Develop New Online Services					24,059	37			24,059	37
Develop Converged Telecommunications Networks					15,000				15,000	
Expand Virtual Services Delivery (VSD)					3,983	2			3,983	2
Alcohol and Tobacco Tax and Trade Bureau (TTB) Program Integrity Transfer:			\$5,000						\$5,000	
Transfer to TTB for High-Return on Investment (ROI) Tax Enforcement Activities			5,000						5,000	
Subtotal FY 2014 Cap Adjustment			\$245,904	2,378	\$166,086	117			\$411,990	2,495
Total FY 2014 Budget Request	\$2,412,576	32,575	\$5,666,787	49,987	\$4,480,843	13,143	\$300,827	513	\$12,861,033	96,218

¹ FY 2012 Enacted represents the approved FY 2012 Operating Plan.



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